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Benzie Shores District Library

Benzie County, Michigan

Audit Report

For the Year Ended June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------------|---|------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Benzie Shores District Library | County Benzie |
| Fiscal Year End June 30, 2006 | Opinion Date December 13, 2006 | Date Audit Report Submitted to State December 20, 2006 | |

We affirm that:

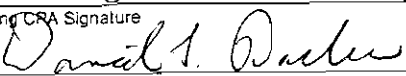
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Tobin & Co., P.C. | | Telephone Number 231-947-0151 | |
| Street Address 400 E. Eighth St. | | City Traverse City | State MI |
| | | Zip 49686 | |
| Authorizing CRA Signature  | Printed Name DAVID L. DASLER | License Number 1101013418 | |

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INTRODUCTORY SECTION

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Comments and Recommendations

We have examined the basic financial statements and the individual fund financial statements of Benzie Shores District Library, Benzie County, for the year ended June 30, 2006 and have issued our report thereon. As part of our examination, we made a study and evaluation of the Library's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Library's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of Benzie Shores District Library taken as a whole. As a result of our examination, we respectfully submit the following comments and recommendations.

Organization and Function

The Benzie Shores District Library is organized in accordance with State statutes. It serves residents of Crystal Lake, Blaine, and Gilmore Townships and the City of Frankfort and the Village of Elberta. It is recognized as a public library by the State Library Board to which it submits annual reports. The Public Library is governed by a board appointed by the units which it serves. The Board meets monthly.

The Library has numerous volumes available for loan to users. Users must be registered with the Library. Fines are assessed for overdue books, and follow-up procedures have been adopted and are enforced.

Revenues consist of penal fines assessed by County courts, State aid, appropriations from participating local units, fines and fees, earned interest, donations, and other miscellaneous income.

Accounting Records and Procedures

In general, accounting records were maintained in very good order. Recorded revenues were deposited timely and intact. Bank accounts were reconciled on a monthly basis. Our testing disclosed that disbursements were supported by itemized invoices.

The Treasurer maintains a receipts and disbursements journal which also reflects the balance in the bank at all times. Income and expenses are posted monthly from the journal to individual ledger accounts from which periodic and annual financial statements are prepared. The recommended chart of accounts is being used.

Board Minutes

Board minutes were maintained in good order and kept in a separate binder.

Budgets and Procedures

A budget for the General Operating Fund was prepared and amended as required by law.

Insurance and Surety Bond Coverage

Records indicate that the Library has such insurance coverage as fire and extended coverage for buildings, collections, and equipment, general liability and workmen's compensation. We were informed that coverage was reviewed during the audit year. Library employees are bonded for \$10,000.

After completion of our audit, we will submit the necessary copies of our report to the State Department of Treasury.

We appreciate the courtesy extended our field examiner in the conduct of this audit.

Your confidence is respected. Please contact us if questions arise or assistance is needed.

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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITOR

To the Library Board
Benzie Shores District Library
Benzie County
Frankfort, Michigan 49635

We have audited the basic financial statements of Benzie Shores District Library, Benzie County, as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of such funds of Benzie Shores District Library, Benzie County at June 30, 2006, and the results of operations in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The supplemental information has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.



TOBIN & CO., P.C.
Certified Public Accountants
December 13, 2006

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BENZIE SHORES DISTRICT LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis report of the Benzie Shores District Library (the Library) covers the Library's financial performance during a two-year period ended June 30, 2006.

FINANCIAL HIGHLIGHTS

The Library's financial status improved in both fiscal years. There were some significant events that have both short-term and long-term financial impact on the Library.

- 1) After extensive contract negotiations and a change in the library law, both the Village of Elberta and Gilmore Township boards voted to have a library services contract with the Library. The contract went into effect in September, 2005. There will be a millage election with the opportunity for both municipalities to join the library district in 2008. If the millage passes, there will be an additional annual millage in perpetuity at the same rate as the library district.

The current financial impact of the contracts is interesting. The Elberta District Library closed several years ago. The Elberta District Library board closed the library but did not dissolve the district library. Therefore, for some years the penal fines meant for the Elberta Library went into an escrow account. The Library board, Elberta and Gilmore agreed to a contract that would give the escrowed penal fines and the future penal fines through 2008 to the Library in exchange for library services. This meant that the Elberta-Gilmore area would receive library services without having to hold a millage election.

The Library received \$30,944 as the escrowed penal fines. That amount was divided by the 4 year life of the contract. In October, 2005 \$7,735.94 was added to the income of the Library but it was after the budget had been approved in May 2005. The remainder was shown as an accrual. The Library received the annual penal fines from Elberta/Gilmore and will continue to receive them annually for the life of the contract. The annual penal fines were distributed to the Library beginning August, 2006.

- 2) Crystal Lake Township has had two 5-year contracts with the Library. The Crystal Lake Township board decided to join the district library rather than have another contract. The amendment to the district library agreement was passed by both the Crystal Lake Township board and the Library board. The millage request to support the agreement was passed by the voters of Crystal Lake Township in August, 2006. This amendment to the agreement also redirected all Crystal Lake penal fines to the district library. Since this millage is in perpetuity it will allow the Library to have the security of more stable funding and the comfort to use some of the spendable portion of the Library's endowment fund. Before the agreement can take effect, voters in the Library district must also approve the reduction of the maximum millage amount from 1.5 mils to 1 mil: it will be on the ballot in November.
- 3) With the addition of library patrons from Elberta/Gilmore and the stable funding provided by Crystal Lake, the board hopes to increase Library hours and add a staff member.
- 4) The City of Frankfort made a mistake and overpaid the Library \$4,200 in tax revenues. The Library returned the money.
- 5) In 2004-2005, the spiral staircase renovation was completed. The remainder of the memorial donations not used for the building project was \$17,000. The \$17,000 was put into the Library's Endowment Fund at the Grand Traverse Regional Foundation.
- 6) The Benzie Shores District Library accomplished the QSAC Essential Standards. Meeting Library of Michigan QSAC Essential Standards has no bearing on penal fine distribution or state aid at this time. However, it could have bearing in the future.
- 7) There was a change in the health insurance benefits for the Library director which saves the Library \$400-\$500 per month.

The major Library revenue sources were as follows:

| | <u>2004-2005</u> | <u>2005-2006</u> |
|-----------------|------------------|-----------------------|
| District milage | \$ 69,397.60 | \$ 70,705.00 |
| Contract milage | \$ 79,506.33 | \$ 82,685.00 |
| Penal fines | \$ 15,621.73 | \$ 18,458.47 (annual) |

Other Library revenue sources include state aid, copy machine fees, late fines and card fees. The Friends of the Library give materials and furnishings, not direct revenue support.

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FY 2004-2005 Budget:

Originally Approved:

| | | |
|-----------|----|---------|
| Income: | \$ | 176,448 |
| Expenses: | \$ | 176,448 |

(excluding Ruth Mix request/construction funds)

Revised for Construction and Final Approved Budget:

| | | |
|-----------|----|---------|
| Income: | \$ | 221,448 |
| Expenses: | \$ | 221,448 |

(includes construction project)

\$17,000 of the bequests/construction fund that was not used on construction was placed in the Endowment Fund at the GTRCF.

FY 2005-2006 Budget:

Originally Approved:

| | | |
|----------|----|---------|
| Income: | \$ | 181,313 |
| Expenses | \$ | 181,313 |

Final Approved Budget:

| | | |
|-----------|----|---------|
| Income: | \$ | 192,583 |
| Expenses: | \$ | 190,583 |

Except as mentions above, based on currently known facts, decisions or conditions, there is no reason to believe that the Library may experience a change in its financial position.

OVERVIEW OF FINANCIAL STATEMENTS

Each month the Library Board Treasurer presents the Benzie Shores District Library Board with the following financial statements:

- Income and Expense Report
- Balance Sheet
- Deposit Detail
- Checkhook Register
- Disbursements Authorization Report

GOVERNMENT-WIDE STATEMENTS

The Benzie Shores District Library is a non-profit public library. The financial activities of the Library are reported as governmental activities. The Library has no business-type activities.

FUND FINANCIAL STATEMENTS

All of the Library's activities are included in the general fund.

The Friends of the Library, a separate entity, received a \$10,000 memorial grant from the Frey Foundation. They received many other memorials and donations. The Friends have a separate Endowment Fund at the Grand Traverse Regional Community Foundation. After purchase by the Friends, all equipment, materials and furnishings are Library property.

The Library has an Endowment Fund at the Grand Traverse Regional Community Foundation. The spendable portion of the Endowment Fund went from \$80,974.88 on June 30, 2004 to \$167,335.89 on June 30, 2006. The Endowment Fund's total balance, as of June 30, 2006 is \$482,456.06.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

The Benzie Shores District Library is in excellent financial shape. When the legal process is complete for Crystal Lake Township to officially join the district library, the library will have stable funding in perpetuity and the resources to make use of a small portion of the Endowment Fund spendable funds.

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FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

The activities of the operations fund have remained constant, consisting of salaries and benefits, purchase of materials (book, books-on-tape and CD, magazines), utilities, building and ground maintenance. The revenues collected to fund the activities remained consistent. The Library received the Elberta/Gilmore escrowed penal fines in exchange for library services (contracted services).

CURRENTLY KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The on-going addition to the Library's budget of the Elberta/Gilmore penal fines will continue to increase the Library's income.

Crystal Lake Township's jointing the district library will allow millage from that township to be assessed in perpetuity which will have a very positive effect on the Library budget.

CONTACTING ENTITY MANAGEMENT

This financial report is designed to provide taxpayers, creditors, investors and customers, with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report please contact either Cathy Carter, Library Director or Jon Armstrong, Library Board President, Benzie Shores District Library, P. O. Box 631, 630 Main St., Frankfort, MI 49635. 231-352-4671 (phone) bsdli@benzieshoreslibrary.org (email).

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Benzie Shores District Library Statement of Net Assets and Governmental Fund Balance Sheet June 30, 2006

| | General Fund | Adjustments (Note 3) | Statement of Net Assets |
|---|-------------------|-------------------------|----------------------------|
| <u>Assets</u> | | | |
| Petty Cash | \$ 100 | \$ - | \$ 100 |
| Cash in Bank – Checking | 57,325 | - | 57,325 |
| Cash in Bank – Certificate of Deposit | 60,000 | - | 60,000 |
| Accounts Receivable | 814 | - | 814 |
| Capital Assets, net of Accumulated Depreciation | <u>-</u> | <u>94,965</u> | <u>94,965</u> |
| Total Assets | <u>118,239</u> | <u>94,965</u> | <u>213,204</u> |
| <u>Liabilities</u> | | | |
| Payroll Liabilities | 2,542 | - | 2,542 |
| Deferred Revenue | <u>65,208</u> | <u>-</u> | <u>65,208</u> |
| Total Liabilities | <u>67,750</u> | <u>-</u> | <u>67,750</u> |
| <u>Fund Balances/Net Assets</u> | | | |
| Fund Balance | | | |
| Restricted | - | - | - |
| Unrestricted | <u>50,489</u> | <u>(50,489)</u> | <u>-</u> |
| Total Fund Balances | <u>50,489</u> | <u>(50,489)</u> | <u>-</u> |
| Total Liabilities and Fund Balances | <u>\$ 118,239</u> | | |
| <u>Net Assets</u> | | | |
| Invested in Capital Assets | | 94,965 | 94,965 |
| Unrestricted | | <u>50,489</u> | <u>50,489</u> |
| Total Net Assets | | <u>\$ 145,454</u> | <u>\$ 145,454</u> |

See Accompanying Notes to Basic Financial Statements

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Benzie Shores District Library Statement of Activities and Governmental Revenues, Expenditures and Changes in Fund Balances For the Year Ended June 30, 2006

| | <u>General Fund</u> | <u>Adjustments (Note 4)</u> | <u>Statement of Activities</u> |
|-------------------------------------|-------------------------|---------------------------------|------------------------------------|
| <u>Expenditures/Expenses:</u> | | | |
| Library Materials | \$ 21,640 | \$ 1,715 | \$ 23,355 |
| Salaries, Wages and Fringe Benefits | 116,043 | - | 116,043 |
| Facilities and Equipment | 34,745 | (2,702) | 32,043 |
| Administrative Services | <u>10,205</u> | <u>-</u> | <u>10,205</u> |
| Total Expenditures/Expenses | <u>182,633</u> | <u>(987)</u> | <u>181,646</u> |
| <u>Program Revenues:</u> | | | |
| Charges for Services | 3,133 | - | 3,133 |
| Operating Grants and Contributions | 189,668 | <u>-</u> | <u>189,668</u> |
| Total Program Revenues | | | <u>192,801</u> |
| Net Program Revenues | | | 11,155 |
| <u>General Revenues:</u> | | | |
| Interest | <u>1,772</u> | <u>-</u> | <u>1,772</u> |
| Excess Revenues (Expenditures) | 11,940 | (11,940) | - |
| Change in Net Assets | | 12,927 | 12,927 |
| <u>Fund Balance/Net Assets:</u> | | | |
| Beginning of the Year | <u>38,549</u> | <u>93,978</u> | <u>132,527</u> |
| End of the Year | <u>\$ 50,489</u> | <u>\$ 94,965</u> | <u>\$ 145,454</u> |

See Accompanying Notes to Basic Financial Statements

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Benzie Shores District Library
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Benzie Shores District Library is located in Benzie County and serves three Townships, the City of Frankfort, and the Village of Elberta.

The Library's basic financial statements include the accounts of all Library operations. The criteria for including organizations within the Library's reporting entity, as set forth in GASB No. 14, "*The Financial Reporting Entity*", includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Based on the above criteria, there are no other organizations included in these financial statements.

B. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Library. Governmental activities are supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Other items not properly included among program revenues are reported instead as general revenues.

The financial activities of the Library are also reported in a separate self-balancing governmental fund described as follows:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from penal fines, state aid, and local unit appropriations.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all Library Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred.

The revenue susceptible to accrual is property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

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Benzic Shores District Library
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets

The General Fund is under formal budgetary control. Budgets shown in the required supplementary schedule for this fund were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Library.

For budgetary purposes appropriations lapse at fiscal year end.

E. Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest is capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$1,000 or more except for collection items and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives of each asset are determined by the Library Director.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. We noted no violations of legal provisions and/or contractual provisions of various agreements related to financial matters.
- B. All funds had positive fund balances at June 30, 2006.
- C. Public Act 621 of 1978, Section 18, provides that a local unit shall not incur expenditures in excess of the amount appropriated. For the year ended June 30, 2006, no Library cost center exceeded its appropriation without formal budget amendment.

NOTE 3 - EXPLANATION OF CERTAIN ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS

Net capital assets of \$94,965 used in governmental activities are not financial resources and therefore are not reported in the fund.

NOTE 4 - EXPLANATION OF CERTAIN ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. Capital outlay exceeded depreciation of Library assets by \$987 for the audit year.

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Benzie Shores District Library
Notes to Financial Statements
June 30, 2006

NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal Provisions for Deposits and Investments

Act 20, Public Acts of 1943, as amended by Act 217, Public Acts of 1982, and Act 196, Public Acts of 1997, states that the Library, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- (1) In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union complies with subsection (2).
- (3) In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after date of purchase.
- (4) Repurchase agreements consisting of instruments defined in (1) above.
- (5) In bankers' acceptances of United States Banks.
- (6) Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (7) In mutual funds registered under the investment company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by local units of government in Michigan.

B. Types of Deposits

The Library had \$121,073 deposited with a local financial institution at June 30, 2006 with a carrying value of \$117,325. Interpreting the FDIC insurance coverage of \$100,000 of demand deposits and \$100,000 of time deposits per financial institution, the Library had no uninsured deposits at June 30, 2006.

NOTE 6 - CAPITAL ASSETS

Capital assets of governmental activities consisted of the following:

| | Balance 6/30/05 | Additions | Deletions | Balance 6/30/06 |
|--------------------------|--------------------|-----------------|----------------|--------------------|
| Building Improvements | \$ 19,098 | \$ - | \$ - | \$ 19,098 |
| Collection | 121,564 | 18,364 | - | 139,928 |
| Equipment | 30,479 | 2,038 | 4,600 | 27,917 |
| Furnishings | <u>36,847</u> | <u>6,000</u> | <u>-</u> | <u>42,847</u> |
| Total | 207,988 | 26,402 | 4,600 | 229,790 |
| Accumulated Depreciation | <u>(112,778)</u> | <u>(26,647)</u> | <u>(4,600)</u> | <u>(134,825)</u> |
| | <u>\$ 95,210</u> | <u>\$ (245)</u> | <u>\$ -</u> | <u>\$ 94,965</u> |

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Benzie Shores District Library Notes to Financial Statements June 30, 2006

NOTE 7 - INVENTORIES

Benzie Shores District Library does not maintain a substantial inventory of supplies or materials. Purchases are normally made as needed, and the items are recorded as expenses when purchased.

NOTE 8 - PENSION PLAN

The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit as provided for in the Internal Revenue Code. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for Library employees was established by personnel policy, which requires employees to contribute 2.2% of gross wages to the plan. The Local Unit is required to contribute 7.8% of gross wages or an actuarially determined rate, whichever is greater; the current rate was 7.8% at June 30, 2006.

Annual Pension Cost

During the fiscal year ended June 30, 2006, the Local Unit's contributions totaling \$4,473 were made in accordance with contribution requirement determined by personnel policies as of June 30, 2006. The actuarially determined employer contribution rate has been based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 32 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent.

Three Year Trend Information

| Year Ended <u>June 30.</u> | Annual Pension <u>Cost (APC)</u> | Percentage of APC <u>Contributed</u> | Net Pension <u>Obligation</u> |
|----------------------------------|--|--|-------------------------------------|
| 2006 | \$ 4,473 | 100% | \$ 0 |
| 2005 | 4,316 | 100 | 0 |
| 2004 | 3,988 | 100 | 0 |

Required Supplementary Information

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Underfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percent of Covered Payroll |
|--------------------------------|---------------------------------|--|------------------------------|-----------------|--------------------|---|
| 12/31/05 | \$ 87,768 | \$ 99,902 | \$ 12,134 | 88% | \$ 52,573 | 23% |
| 12/31/04 | 99,589 | 116,216 | 16,627 | 86% | 56,507 | 29% |
| 12/31/03 | 76,768 | 90,441 | 13,673 | 85% | 50,942 | 27% |

Tobin & Co.

Benzie Shores District Library
Notes to Financial Statements
June 30, 2006

NOTE 9 - CONTINGENT LIABILITIES

There are no known contingent liabilities of the Library.

NOTE 10- LEASE

The Library rents their facilities from the City of Frankfort under a lease which expires January 9, 2007. The Library is responsible for upkeep, repairs and maintenance, utilities and insurance on the leased property.

NOTE 11- ENDOWMENT FUND

The Library is the beneficiary under an endowment fund agreement with the Grand Traverse Regional Community Foundation.

The fund is an agency fund, established with contributions of \$315,120. The assets of the fund are shown on the Foundation's financial statements and not on those of the Library. The accumulated donations remain the property of the Foundation while accumulated earnings will be distributed as agreed upon. Spendable reserves at June 30, 2006 are \$167,336.

The Library does not exercise control over the principal of the funds. Variance power has been granted to the Grand Traverse Regional Community Foundation for assets in the endowment funds. If the Library ceases to exist or no longer performs its function under the provisions of the agreement, the Foundation shall continue to administer and disburse fund assets in a manner deemed appropriate according to the agreements.

NOTE 12- COMPENSATED ABSENCES

The Library Director earns non-cumulative vacation and sick leave based upon years of service. Sick leave and vacation leave are not transferable to pay at any time.

NOTE 13- RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the audit year the Library addressed these risks through the purchase of commercial insurance through a local insurance agent and Citizens Insurance Company of America. There was no significant reduction of insurance coverage from prior years nor have the amounts of any settlements exceeded insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL DATA SECTION

Tobin & Co.

Benzie Shores District Library
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2006

Schedule 1
Page 1

| <u>Revenues</u> | <u>Budgetary Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--------------------------------------|--------------------------|----------------|----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Contributions from Local Units: | | | | |
| Penal Fines | \$ 15,500 | \$ 17,500 | \$ 18,458 | \$ 958 |
| City of Frankfort | 50,952 | 50,952 | 47,867 | (3,085) |
| Blaine Township | 24,309 | 24,309 | 22,838 | (1,471) |
| Crystal Lake Township | 83,192 | 83,192 | 82,685 | (507) |
| Elberta/Gilmore | - | - | 7,736 | 7,736 |
| State Grants: | | | | |
| State Aid | 700 | 700 | 814 | 114 |
| Charges for Services: | | | | |
| Copier Fees | 550 | 550 | 432 | (118) |
| Late Fines and Lost Books | 1,460 | 1,460 | 1,301 | (159) |
| Card Sales | 1,400 | 1,400 | 1,400 | - |
| Interest and Rent: | | | | |
| Interest | 1,250 | 1,250 | 1,772 | 522 |
| Other: | | | | |
| Endowment | 2,000 | 2,000 | - | (2,000) |
| Donations | - | 9,270 | 9,270 | - |
| Total Revenues | 181,313 | 192,583 | 194,573 | 1,990 |
| <u>Expenditures</u> | | | | |
| Library Materials: | | | | |
| Collection | - | - | 15,218 | - |
| Periodicals | - | - | 3,275 | - |
| Audio/Visual | - | - | 3,147 | - |
| Total | 20,300 | 22,200 | 21,640 | 560 |
| Salaries, Wages and Fringe Benefits: | | | | |
| Salaries and Wages – Librarian | - | - | 55,335 | - |
| Salaries and Wages – Other | - | - | 32,623 | - |
| Social Security/Medicare | - | - | 6,729 | - |
| Health Insurance | - | - | 15,032 | - |
| Life Insurance | - | - | 465 | - |
| Pension | - | - | 4,473 | - |
| Workmen's Compensation | - | - | 673 | - |
| Transportation and Travel | - | - | 583 | - |
| Professional Development | - | - | 130 | - |
| Total | 123,313 | 119,213 | 116,043 | 3,170 |

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

Benzie Shores District Library
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2006

Schedule 1
Page 2

| | <u>Budgetary Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|----------------------------------|--------------------------|-----------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| <u>Expenditures (Continued)</u> | | | | |
| Facilities and Equipment: | | | | |
| Utilities | - | - | 8,456 | - |
| Telephone | - | - | 3,091 | - |
| Maintenance and Repairs | - | - | 9,072 | - |
| Capital Outlay | - | - | 10,014 | - |
| Insurance | - | - | 4,112 | - |
| Total | <u>25,200</u> | <u>35,770</u> | <u>34,745</u> | <u>1,025</u> |
| Administrative Services: | | | | |
| Printing and Publishing | - | - | 369 | - |
| Office Supplies | - | - | 2,050 | - |
| Postage | - | - | 2,386 | - |
| Professional Services | - | - | 5,212 | - |
| Other | - | - | 188 | - |
| Total | <u>12,500</u> | <u>13,400</u> | <u>10,205</u> | <u>3,195</u> |
| Total Expenditures | <u>181,313</u> | <u>190,583</u> | <u>182,633</u> | <u>7,950</u> |
| Excess Revenues (Expenditures) | <u>\$ -</u> | <u>\$ 2,000</u> | 11,940 | <u>\$ 9,940</u> |
| Fund Balance – Beginning of Year | | | <u>38,549</u> | |
| Fund Balance – End of Year | | | <u>\$ 50,489</u> | |

The Notes to the Basic Financial Statements are an integral part of this statement.